

Ms Georgie Purcell MLC,
Legislative Council Economy and
Infrastructure Committee,
Parliament House, Spring Street
East Melbourne VIC

**RE: Inquiry into Local Government
funding and services**

Dear Ms Georgie Purcell,

YIMBY Melbourne thanks the Legislative Council Legal and Social Issues Committee for the opportunity to provide input into the Inquiry into Local Government funding and services.

As an organisation that advocates for housing abundance, Local Governments are a key stakeholder in our work. Their financial stability underpins their delivery of services and policy that significantly impact the delivery of housing across Melbourne, and Victoria more broadly.

Our submission focuses primarily on terms of reference 2 through 5. We make a total of nine recommendations.

In the first section, we discuss rates and revenue reform, including strongly recommending the removal of the rate cap. Rates should be based on land values instead of property values.

In the second section, we recommend the State Government give local councils better economic tools and best practice guides for undertaking material cost-benefit analyses prior to implementing policies such as planning scheme amendments.

In the third and final section, we recommend amalgamating local councils to create a single authority responsible for the consistent governance of metropolitan Melbourne.

We thank the Committee for engaging with our organisation and look forward to working with you throughout this inquiry and beyond.

Yours sincerely,

A handwritten signature in black ink, appearing to read "JOB", with a stylized flourish extending from the end.

Jonathan O'Brien
Lead Organiser, YIMBY Melbourne
lead@yimby.melbourne

Recommendations

Rates and revenue reform

1. Abolish the local government rate cap.
2. Shift council rates from capital-improved value to land value.
3. Realign revenue from state government initiatives such as the Development Facilitation Program (DFP) to reduce adversarial relationships between state and local government bodies.

Better economic tools for local government

4. Provide best-practice policy assessment frameworks that outline common considerations and how to measure them consistently across councils.
5. Amend the Local Government Act 2020 to require cost-benefit analyses for significant proposed policy and rule changes.
6. Create a “public consultancy” within the State Government to assist local councils with strategic work.
7. Implement internal tender-first provisions and prohibit the acceptance by councils of “free lunches” from private consultancy firms.

Toward metropolitan governance

8. Amalgamate all Greater Melbourne councils into a metropolitan-wide government in the style of that seen in Auckland, Brisbane and London.
 - a. Implement a local board structure to allow local-level decision-making to remain intact.
9. Roll back the 2018 shift towards single-member wards and reinstate multi-member wards.

Introduction: Empower local government to benefit from growth

As an organisation, YIMBY Melbourne is pro-growth. We believe in a bigger and better Melbourne—a city that is liveable, sustainable, and affordable for all who live and want to live within its boundaries.

State and federal governments are also pro-growth. That is because through the collection of revenue through means such as income, payroll, and sales taxes, higher levels of government explicitly benefit from this growth.

However, current policy gives little incentive for local governments to be pro-growth.

In order for all levels of government to function cohesively, their incentives must be aligned.

Our submission makes recommendations that focus on this alignment of incentives, highlighting specific frameworks and programmes within our local government system that prevent these bodies from adequately and efficiently delivering services across the Greater Melbourne area.

In the first section, we discuss rates and revenue reform, including strongly recommending the removal of the rate cap. Rates should be based on land values instead of property values.

In the second section, we recommend the State Government give local councils better economic tools and best practice guides for undertaking material cost-benefit analyses prior to implementing policies such as planning scheme amendments.

In the third and final section, we recommend amalgamating local councils to create a single authority responsible for the consistent governance of metropolitan Melbourne.

It is essential for the sake of all Victorians that our local governments are set up for success. Implementing the recommendations contained within this submission would play a significant role in ensuring that this occurs.

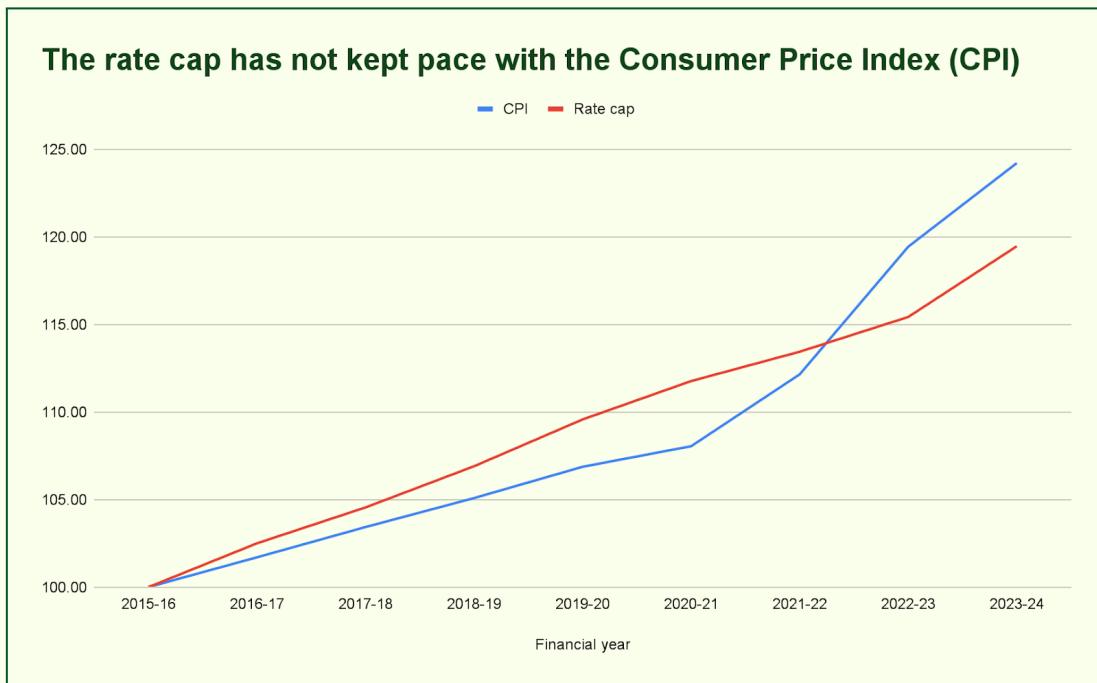
Rates and revenue reform

Key points

- The rate cap has diminished the ability of councils to operate sustainably.
- Land value taxes are more progressive and incentivise better land use by both property owners and local councils.
- Some state government initiatives have fostered adversarial relationships between local and state governments.

Abolish the rate cap

At the time of implementation, the rate cap was framed as a cost-of-living measure. However, since its implementation, low rate growth has turned into a form of institutional austerity.



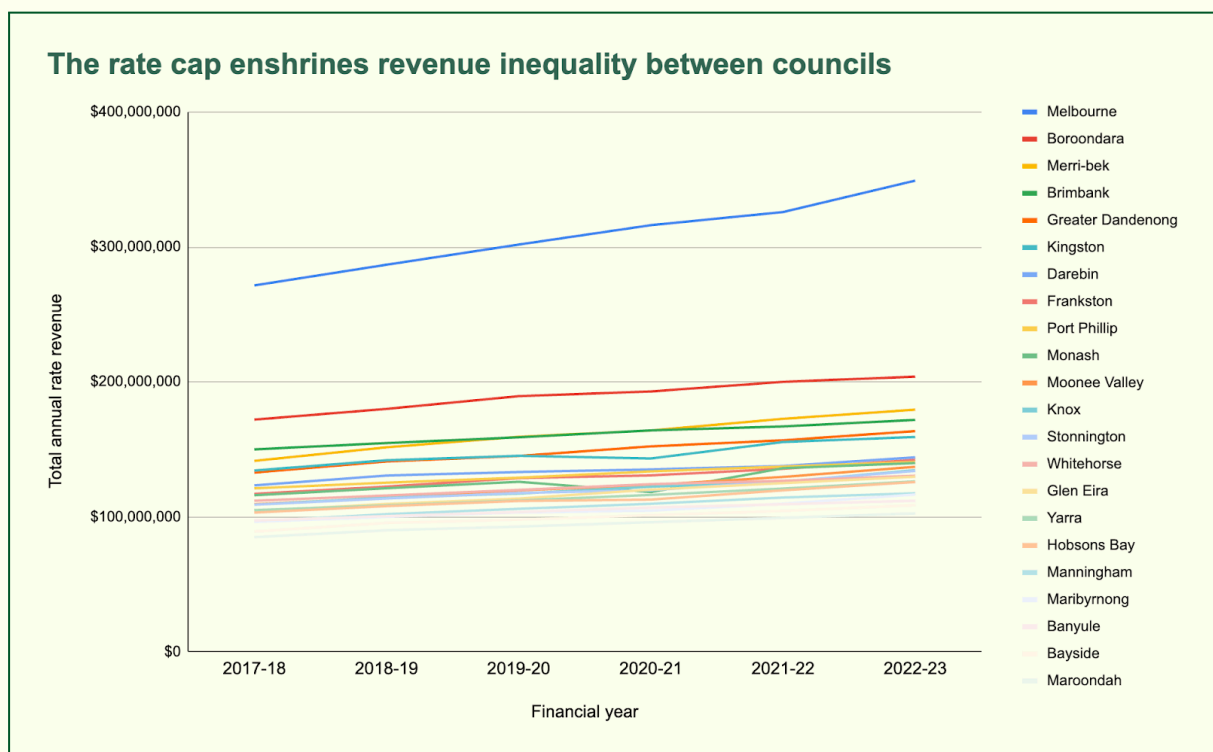
Cumulative increases normalised to 2015-16 CPI and rates.

Council rates need to be better aligned with increasing service delivery costs. This would best be achieved by abolishing the cap completely and empowering councils to control their own rates.

The alternative will be the continued proliferation of ad hoc service charges to plug budget holes, such as waste service charges, which have been introduced in councils where waste service costs have increased above and beyond the rate cap.¹

The rate cap gives councils a choice between additional per-household charges or the further decline of the quality and quantity of services they are able to provide.

There are additional problems with the rate cap. For instance, the cap is relative to each Council's self-set 2016 rates. As such, the rate cap has locked in inequality between councils—because Councils with high rates then have high rates now, and vice versa.



The rich get richer: rate growth over time, metro councils. Source: [Victorian Auditor General's Office](#)

This has created a situation in which slow-growing councils have high rates, while other, faster-growing municipalities began from a lower 2016 base, and as such are put in a position where they may disproportionately struggle to provide increased services and infrastructure for residents.

Set rates based on land value, not capital-improved value

Victorians would benefit from more equitable and dynamic rates. Council rates are a relatively efficient tax compared to many state government taxes, such as stamp duty. Ken Henry’s Tax Review noted that “the immobility of land makes rates based on land

¹See for example Whitehorse council: [About Waste Service Charge](#)

value an appropriate tax base for local governments. States should allow local governments a substantial degree of autonomy to set the tax rate applicable to property within their municipality.”²

In this instance, as in many others, YIMBY Melbourne agrees with Ken Henry.

In Victoria-specific research, Murray and Hermans examined the difference between land value and capital-improved value local government property taxes and found evidence that land value taxes were notably more progressive and incentivised better land use.³

They found that switching from a capital-improved value to a land value property tax base “increased the yearly value of residential construction investment by 20%, and is likely to have also increased the number of dwelling permits issued”. In essence, moving to a land value model would enable more homes to be built.

Clear pro-growth incentives must be provided in order to orient councils toward embracing the increased housing supply and density Victorians need, ensuring that more homes are built where people want to live.

Abolishing the council rate cap and moving to a land value tax would be key steps in the right direction.

Reform adversarial state government programs

Only when the incentives of both levels of government are aligned will Victoria be able to function most effectively. The bulk of incentives can be aligned by reforming the capping and calculation of rates as outlined in previous subsections.

However, this is not the only misalignment between state and local councils. The State Government must also work to reassess policies and programs that create or exacerbate an adversarial relationship between levels of government.

This reassessment has already begun to some extent. In 2022, the State Government wisely shelved policy which would have exempted social and affordable housing projects from paying council rates.⁴ This was the correct move, because a rates exemption would have incentivised local councils to oppose social and affordable housing, since these projects would see their costs increase, but not their revenue. Given that opposition rates to social and affordable housing are already high, it is

² [Report on Australia’s future tax system](#) – p70

³ [Land value is a progressive and efficient property tax base: Evidence from Victoria](#) – Cameron K Murray & Jesse Hermans; June 1, 2021

⁴ [Social Housing and Funding for Council Services: Issues Paper](#) – Municipal Association of Victoria; July 2021

essential that local councils are incentivised to approve, rather than reject, the kinds of projects our city desperately needs.

While the example above demonstrates the well-advised abandonment of an adversarial policy, there are many examples of these sorts of programs still active within Victoria. These include:

- The Development Facilitation Program⁵
- Arbitrary rates exemptions⁶
- Free kindergarten mandates⁷
- Localised infrastructure maintenance⁸

This submission will focus on the first of the above examples, which is the state's much-touted Development Facilitation Program for new high-value and affordable housing builds.

Example: realigning the Development Facilitation Program

The Development Facilitation Program (DFP) is described by the Department of Transport and Planning (DTP) as "an accelerated assessment pathway" that enables major projects to be determined by the Department or Minister, instead of the local government.⁹

However, during our discussions with the local government sector, some have highlighted how major projects can be shifted into the DFP pipeline, even in cases where council officers have already conducted assessments, formulating positions and conditions on the project. The outcome of this pipeline shift is that local councils do not receive the revenue they would otherwise receive for their work on a major permit application—despite in some cases having actually completed significant work.

While councils may not be nominated as official referral authorities, it is in their fundamental interest as mandated service providers to have input to the Department for any given application pursued through the DFP in their council area.

This means that under current conditions councils will sometimes act as unofficial referral authorities, undertaking work to form positions, inform councillors, and to liaise with Department planners on decisions and permit conditions. In these instances, council officers directly complement the work of the Department.

⁵ [Development Facilitation Program](#) – Department of Transport and Planning

⁶ [Council rates](#) – Vic Councils

⁷ [Kinder surprise: 1100 kids in limbo as council pulls plug on kinder services](#) – The Age; August 15, 2023

⁸ [Melbourne council to stop cleaning roads](#) – 9News; April 29, 2024

⁹ [Development Facilitation Program](#) – Department of Transport and Planning

We highlight throughout this submission that local councils are resource-scarce institutions. While reducing the workload of council officers may seem beneficial, it is essential that councils are compensated for their time and efforts when they have completed work.

A lack of officer compensation for completed work damages stakeholder relationships and incentives. By neglecting to compensate local government for work done as part of a development on the DFP pathway, the State Government gives local councils little incentive to allocate any of their capacity to large, DFP-sized projects. This is because councils will consider the real potential of a State Government takeover without compensation a good enough reason to simply not do the work in the first place.

This example outlines a case where an under-resourced council has been punished for being under-resourced—with the result of that punishment being even less resourcing.

The state government must reform programs that involve local councils, such as the DFP, to ensure that the costs of all parties are accounted for, and revenue is shared equitably in proportion with those costs.

It is recommended that in cases like the above councils be granted a Recommending Referral Authority status or similar for application pathways such as the DFP, where referral work can be compensated through a portion of the application fee.

Recommendations

1. Abolish the local government rate cap.
2. Shift council rates from capital-improved value to land value.
3. Realign revenue from state government initiatives such as the Development Facilitation Program (DFP) to reduce adversarial relationships between state and local government bodies.

Better economic tools for local government

Key points

- Local governments struggle to perform adequate cost-benefit analyses (CBAs) for their policies and prioritise maintenance of assets due to limited resources and lack of guidance from the state government.
- Private consultants are hurting local government as they often create bespoke frameworks with little regard for best practices, leading to subpar work and outcomes.
- There is a strong case for better partnerships and resource-sharing incentives between state and local governments to support local councils' capabilities.

Assist local governments to measure policy impacts

Council policy should be aimed at ensuring the best outcomes for those who use their services. However, councils have little guidance or capacity to run robust cost-benefit analyses (CBAs) prior to the implementation of their policies.

Ad hoc policy justification and implementation leads to inconsistency between and lack of accountability within councils. This should not be the case, however, as all councils deliver policy and services within the same broad categories, and should be guided by best practices to ensure congruence and interoperability of policies and services across metropolitan Melbourne and Victoria at large.

The state government should provide best practice frameworks for analysing and justifying the implementation of new policy instruments, to ensure that impacts and externalities are correctly costed and accounted for.

Example: the Grattan Institute's Road Manager Survey

For an example of bad outcomes caused by council inconsistency, we can consider the Grattan Institute's Road Manager Survey. One shocking figure demonstrated that a full quarter of Victoria's councils do not know how many bridges they manage.¹⁰ Many councils, especially remote councils, rely on rules of thumb to determine whether they ought to grant access to a bridge or road instead of undertaking an engineering assessment. This is indicative of how the lack of clear frameworks leaves local governments to rely on informal or inadequate procedures in order to manage infrastructure and services. All councils should know how many bridges they have, and

¹⁰ [Potholes and pitfalls: How to fix local roads](#) – Grattan Institute; November, 2023

should know about them in the same way through a consistent framework provided by the state government.

While this survey is restricted to the management of council roads, it illustrates a point that is more broadly applicable. Councils do not have the resources to measure, let alone maintain, their assets that the community uses and relies upon every day. This is the result of every council being required to manage their own individual frameworks, rather than relying on shared best practice that would enable them to operate more efficiently and in concert with each other.

In order for local government bodies to be more efficient, the State Government must create the appropriate context for that efficiency. Better funding, more support from the State Government to produce and guide CBAs, and larger councils, would all enable local governments to provide better services at lower costs.

Many of the considerations included when determining policy are similar or the same between different councils. Each council has limited resources to devote to developing policy, creating a great deal of unnecessary repeated efforts between councils. The State Government could reduce this by creating best practice policy assessment frameworks for councils to use, laying out common considerations and how best to measure them. This would also enable policy to be more consistent between councils where considerations are similar, simplifying the process for entities that interact with many different councils, such as community housing providers.

Example: Merri-bek's Brunswick Activity Centre Structure Plan

An example of local governments struggling to undertake appropriate CBAs can be found in Merri-bek council's recent Brunswick Activity Centre Structure Plan. The Plan requires large proportions of developments within the Activity Centre to be mandatorily allocated to commercial uses.¹¹ The policy deviates from those of other similar councils and activity centres, and the costs of this policy—say, to housing developments and new residences—are not clearly measured anywhere within the policy documents. This makes it unclear whether this policy will actually lead to better outcomes in Brunswick, or whether placing this onerous requirement upon housing developers will simply increase costs and make housing less affordable within Brunswick's densest areas.

As such, we recommend that the State Government amend the Local Government Act 2020 to include provisions requiring a cost-benefit analysis of proposed rule changes, similar to that seen in section 32 of the Resource Management Act from New Zealand. This needs to be paired with extensive CBA frameworks developed by the relevant State Government departments to assist local governments in complying with this

¹¹ [Vibrant Brunswick Brunswick Activity Centre Structure Plan](#) – Merri-bek City Council

provision. The State Government also needs to create clear communication channels in order to capture feedback from Local Government to understand what new CBA frameworks need to be established.

End rent-seeking: establish a Victorian public consultant

Due to an infrequent need for specialised capabilities, the use of rent-seeking private consultants is rampant in the local government sector. Often, these consultants create bespoke frameworks and tools with little regard for best practices or quality of work, and much more focus on a continued revenue stream.

A recent example of this includes the private consultancy SGS Economics and Planning's so-called Wellbeing Index, which was designed to appease local government stakeholders rather than deliver a meaningful metric underpinned by a robust methodology.¹² Consultants make a lot of money off of these reports, which often concern areas outside their expertise, and feed into the subpar informational climate of the local government sector.

As we will discuss later, council amalgamations would provide council teams with the scale necessary to dedicate staff to specific areas of expertise—rather than relying on rent-seeking external consultants that fill in the infrequent short-term needs.

In the absence of amalgamation, though, there are alternative solutions that the State Government can enact.

For instance, the State Government has the opportunity to improve and strengthen local government capacity through the creation of a Victorian 'public consultancy'. In practice, this would encompass a pool of staff across relevant departments, from which local governments can draw to complete specialist works on their behalf.

In order to ensure competition, a provision could be created to require local governments to tender to the public sector as well as private consultants.

With or without a public option, the State Government should ensure more scrutiny is placed on consultants. This should include removing the exemption from public servants' ability to accept token hospitality, such as beverages or sandwiches over a lunchtime meeting, or invitations to free seminars on legitimate business topics.¹³ At

¹² Rather than using the ABS's SA1 data, as is best practice, the Index measured whole-of-LGA data because, as per a briefing from the consultancy, the SA1 level of analysis was found by their clients to be too difficult. Rather than working to educate and improve local government understanding of metrics, SGS opted to produce a worse product.

¹³ [Gifts, benefits and hospitality policy](#): "Authority employees must refuse all offers (with the exception of token hospitality, such as beverages or sandwiches over a lunchtime meeting or invitations to free seminars on legitimate business topics)"

minimum, councils should be required to keep a registry of these gifts with the value of what was received and the names of the receivers. This will help end perverse incentives for the public sector to conduct meetings at private consultancies in order to receive a literal free lunch.

Recommendations

4. Provide best-practice policy assessment frameworks that outline common considerations and how to measure them consistently across councils.
5. Amend the Local Government Act 2020 to require cost-benefit analyses for significant proposed policy and rule changes.
6. Create a “public consultancy” within the State Government to assist local councils with strategic work.
7. Implement internal tender-first provisions and prohibit the acceptance by councils of “free lunches” from private consultancy firms.

Toward metropolitan governance

Key points

- Larger council areas that align with how people actually use infrastructure and services across the metropolitan area provides more coherent and efficient service delivery through economies of scale.
- The current system of small local council boundaries does not reflect how people relate to the broader metropolitan area. Residents have little political influence over councils outside their area, even if decisions by those councils impact them.
- Small councils tend to privilege existing and secure residents over future and displaced residents.
- Extremely small single-member ward boundaries make little sense geographically and reduce diversity of representation on councils.

The way that communities use infrastructure and services has little relationship to current council borders. The borders between councils are, like the zones they enforce, arbitrary lines on a map. People in Northcote conceive of themselves as being from Northcote or from Melbourne or from Victoria. Very rarely does their self-conception include being a resident of Darebin. It is time we introduced a single council for all of metropolitan Melbourne.

The core benefit of metropolitan governance, of course, is not coherence of identity. Rather, it is that a larger council area enables more coherent service delivery, such as bike lanes that run the full length of a given road, because the road is now administered by a single entity. Economies of scale and better bargaining power enabled by an amalgamated council would go a long way to ensuring better delivery of infrastructure and contracted services.

In addition to amalgamation, the State Government should also consider centralising the administration of some services, such as pet registration, to reduce the duplication of systems and enable local councils to focus on core service delivery that can only be managed locally.

Amalgamate councils to combat the phenomenon of metropolitan disenfranchisement

Melbourne urbanists have coined the term *metropolitan disenfranchisement* to describe how geographically small councils, particularly those that no longer represent a clear community of interest, systematically and often unconsciously privilege existing residents over future or aspirational ones.¹⁴

This results in a situation where economic pressures like rising rents or house prices displace people from a small LGA, leaving them with no influence over the area from which they were displaced.

The opposite is also true. For example, a young family in Melton wanting to move closer to work in the city has no way to influence an inner-urban council to facilitate more affordable housing for them. Nor can a renter, priced out of Richmond and away from their work and their community, influence their local council to permit changes to the urban fabric that would prevent their friends being forced out too—or better yet, enable them to return.

The result of metropolitan disenfranchisement is that the costs of population growth are unevenly borne across councils. If one council (say, Boroondara) fails to deliver housing supply, it makes housing more expensive elsewhere. Outer suburban councils in growth areas, who have seen the majority of population growth in recent decades, already have an infrastructure shortfall due to starting from a lower base than high-amenity inner-urban councils. Thanks in no small part to metropolitan disenfranchisement, this deficit continues to grow.

Some will argue that empowering people outside of local communities to have influence over local decisions is undemocratic and inappropriate. But Victoria's local government system already allows non-local residents to vote and even become councillors for areas in which they do not live—they just have to be wealthy enough. Anyone who pays local rates through business or property ownership is eligible to vote or even nominate in the relevant ward. In this way, our fragmented local government system privileges those with capital interests, over and above less wealthy people with nonetheless strong connections to an area through work, community or family.

This returns to the point with which we began this section: people do not live their lives based on the arbitrary borders of local government areas. And yet our governance systems inherently assume they do.

¹⁴ [Australia's Metropolitan Imperative](#) – Richard Tomlinson & Marcus Spiller; July 2018

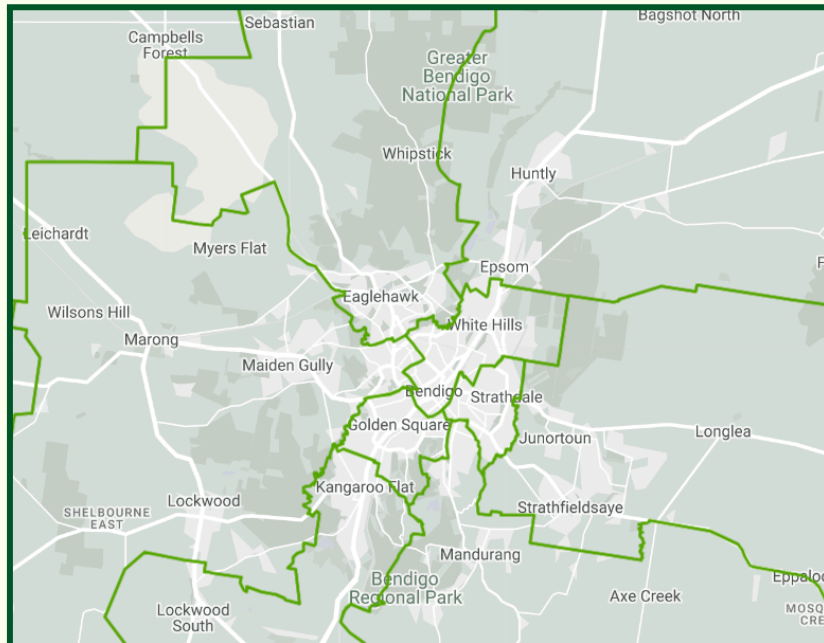
To create a bigger, better Melbourne, the Victorian Government needs to radically reconceptualise how our councils are designed in order to improve the democratic inclusion of groups like young families and renters.

In particular, YIMBY Melbourne is of the view we should replace our existing structure of atomised and unfit-for-purpose local councils with a single city-wide government or the systemic amalgamation of smaller councils.

These models are common around the world across many major cities like London, Barcelona, New York, and Auckland—and closer to home in Brisbane.

We recommend that Melbourne’s metropolitan governance structure be modelled after the Auckland governance reforms, including the creation of local boards to ensure that local communities have a body to consult and interact with.¹⁵ A significant benefit of local boards is that the geographical boundaries can be easily tweaked to represent tangible communities as said communities shift and change, rather than relying on the reconfiguration of representative electoral borders.

Reinstate multi-member wards to ensure better democratic representation



Bendigo single-member ward boundaries, 2024. Source: [Victorian Electoral Commission](#).

Single-member wards combined with small local government areas mean that the Victorian Electoral Commission (VEC) is forced to create ward boundaries that make

¹⁵ [The Governance of Auckland: 5 years on](#) – The Committee for Auckland

little sense in terms of neither geography nor communities of interest. A clear example is the City of Greater Bendigo, which now has extremely messy wards (above), with little regard for clear common interests or community.

As such, new local representatives will likely not be representing cohesive communities but random small subsections of a larger community. The proportionality, and thereby the representative value of councillors, drops when there are fewer councillors elected per ward.¹⁶

Furthermore, the fewer councillors elected per ward, the less diverse the elected representatives are likely to be.¹⁷ The point of local government is to better-represent local communities; on this front, single member wards set this system up to fail.

The diversity of representation is not just about race, gender, or sexuality—it is about life experience and political ideology. Having competition and conflicting viewpoints is critical for democratic systems to work. But single-member wards make this principle harder to achieve.

The move of Victoria's already-small councils to mandatory single-member wards creates geographically tiny areas—some as small as a few neighbourhood blocks—where people wanting to run for council or even engage with local politics will be expected to stay rooted for years.

Because renters move house far more frequently than homeowners, often involuntarily, they are much less likely to be able to represent a small geographic area. This is because, under the conditions of housing scarcity, renters do not have the luxury of restricting themselves to looking only in single council areas—particularly where those areas are particularly small, or housing-supply constrained.

The end result: councillors are incentivised to represent and respond to a shrinking pool of homeowners.

We recommend that council wards move away from single-member and small wards and towards larger, multi-member wards.

Create larger institutions to increase accountability

A final and under-discussed issue is the relationship between local media and transparent decision-making within local government.

¹⁶ [Proportionality and magnitude at the NSW council election](#) – The Tally Room; January 6, 2022

¹⁷ [Victorian government vs local democracy](#) – The Tally Room; July 22, 2019

There is research pointing towards the decline of local papers as a key contributor to the nationalisation of politics, leading to voter ambivalence to local issues.¹⁸ Additionally, the closure of regional newspapers is linked to rises in corruption charges.¹⁹

While solving the decline of local media is far out of the scope of this inquiry, a metropolitan government would be more open to scrutiny by the fourth estate and the population more broadly, enabling decision-making to be better-understood by a broader proportion of the voting population.

Equally, a larger population enables reporting on local issues to be viable and resourced by state- and national-based organisations. With greater scrutiny, the events in growth suburbs that led to the State Government's long engagement with Operation Sandon would perhaps have been discovered and reported on earlier, and Victorians' trust in local government institutions would not have been so damaged.

Recommendations

8. Amalgamate all Greater Melbourne councils into a metropolitan-wide government in the style of that seen in Auckland, Brisbane and London.
 - a. Implement a local board structure to allow local-level decision-making to remain intact.
9. Roll back the 2018 shift towards single-member wards and reinstate multi-member wards.

¹⁸ [Newspaper Closures Polarize Voting Behavior](#) – Joshua P Darr, Matthew P Hitt & Johanna L Dunaway; November 5, 2018

¹⁹ [No News is Bad News: Political Corruption, News Deserts, and the Decline of the Fourth Estate](#) – Ted Matherly & Brad N. Greenwood; 2021

Conclusion

Victorians deserve to be better-served by their local governments. While YIMBY Melbourne is very often critical of local government decisions, we are not naive enough to believe these institutions operate within a vacuum. Rather, they operate within the specific parameters set by the State Government.

Throughout this submission we have outlined clearly how these parameters can be better-tuned in three key areas in order to improve performance. We have covered ambitious rates and revenue reform, strong best practice frameworks, and the mandate for council amalgamation.

We conclude our submission with a final statement on the housing crisis. It is no secret that local councils currently play a large role in the delivery of housing across our city. But with great power comes great need for institutional resourcing.

We are in a housing crisis. If the State Government is not willing to give councils the adequate resources and incentives to execute on their housing delivery mandates, then the State should take over these powers and prove they can do a better job. In the absence of a Greater Melbourne Council, perhaps a Greater Melbourne planning body would suffice.

Through the implementation of the nine recommendations within this submission, local councils would be much better set up for success. They would, like the rest of Australia's governing bodies, be aligned in favour of growth, in favour of capacity-building, and—most importantly for our work—in favour of more homes where people want to live.